



# Proposed Pension Reform

City of Atlanta – Mayor's Office  
Presentation to AFR (#2)  
April 11, 2011

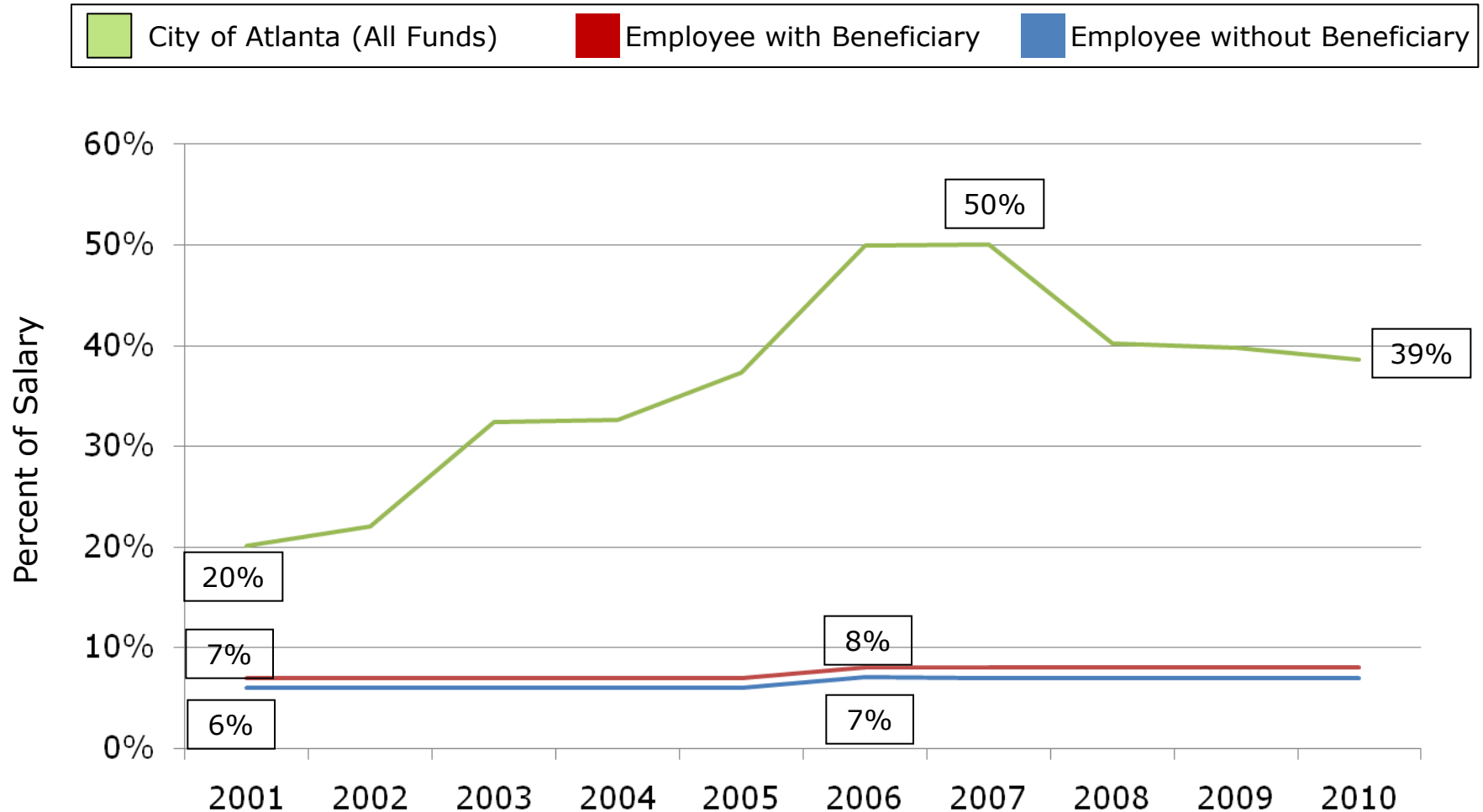
# DRAFT

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**IMPORTANT NOTE:** This document contains only a summary discussion of the City's pension plans and certain changes to those plans currently being considered by the City. Not all terms of the pension plans which affect the calculation of and eligibility for pension benefits are discussed in this summary. For a complete discussion of the terms of the pension plans and how those terms apply to you, please direct your attention to the pension plans themselves. Also, to the extent there are any differences between this summary description and the terms of the pension plans, the pension plans will control.

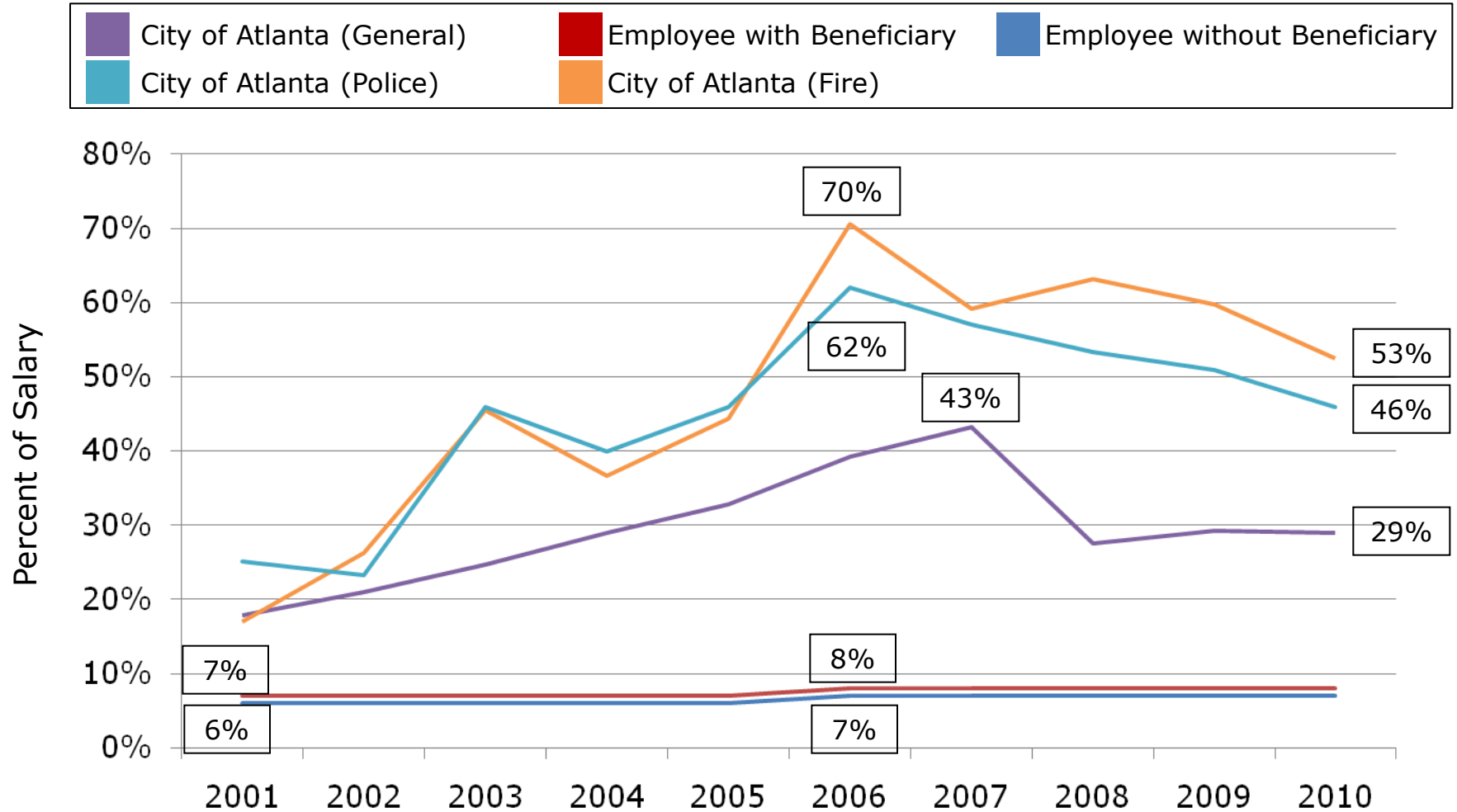


# Annual contributions as a percent of payroll for all funds





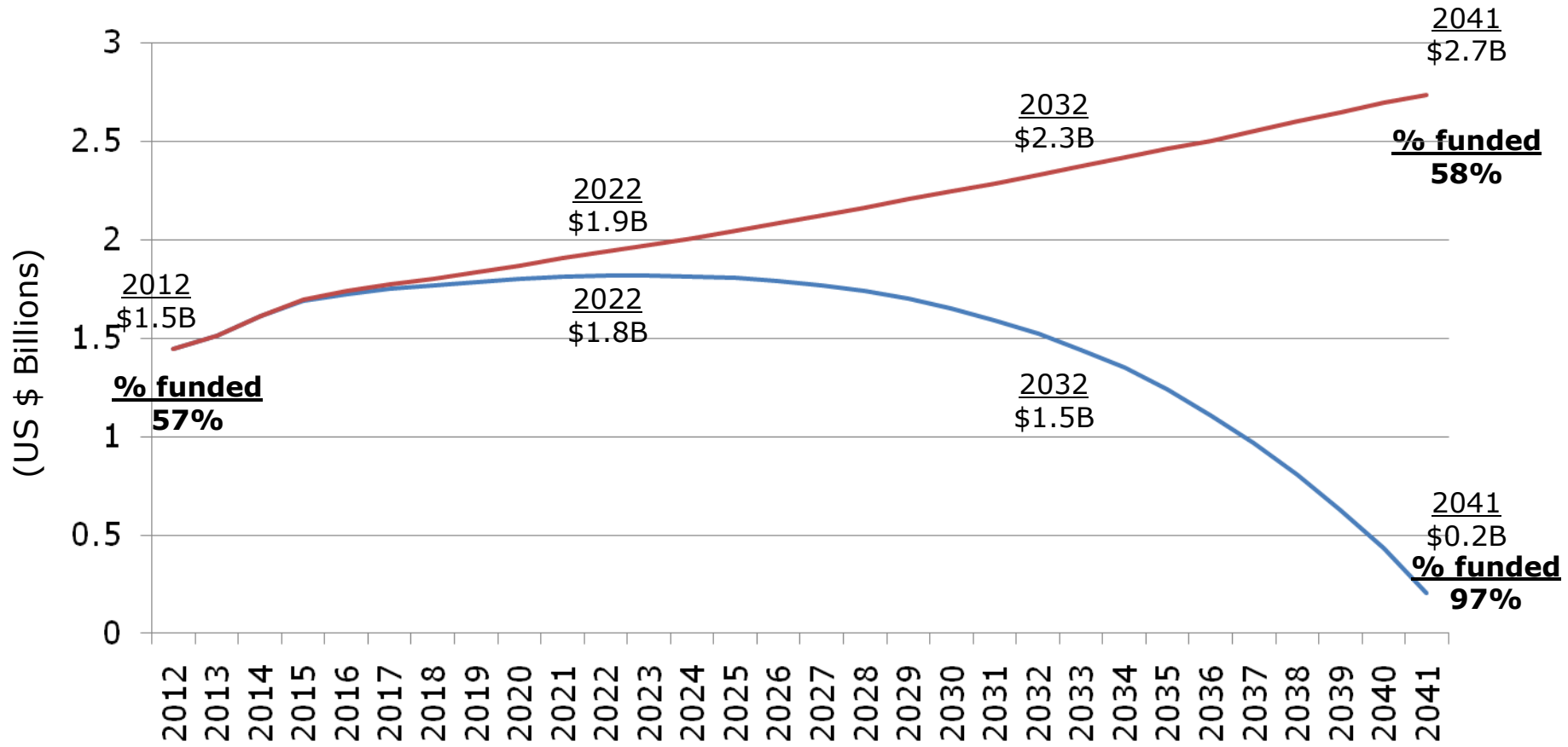
# Annual contributions as a percent of payroll for AFR, APD and General funds





# Switching to closed amortization will reduce Atlanta's unfunded liability (UAAL)

Unfunded Actuarial Accrued Liability (UAAL)



Note: Numbers reflect data with no changes in assumptions (i.e., 7.75%/8.00%); Closing amortization leads to elimination of UAAL

Source: Segal & Co.



# Historical funding levels for the City's pension funds over the last 10 years

Funded % (MVA/AAL)	Actuarial Value of Assets/Actuarial Accrued Liability		
Valuation Date	Police	Fire	General
<b>1/1/2000</b>	<b>96.03%</b>	<b>92.69%</b>	<b>76.42%</b>
1/1/2001	91.84%	91.14%	71.77%
1/1/2002	74.43%	83.09%	63.07%
1/1/2003	63.04%	68.61%	56.30%
1/1/2004	72.06%	77.80%	60.73%
1/1/2005	74.52%	78.60%	63.90%
1/1/2006	62.29%	65.29%	54.83%
1/1/2007	68.09%	68.41%	57.81%
1/1/2008	67.47%	67.62%	56.18%
<b>1/1/2009</b>	<b>52.34%</b>	<b>48.01%</b>	<b>52.80%</b>



# Guiding principles and ground rules for pension system reform

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Provide a pension promise to employees that the City can keep

- Reduce the annual pension cost in the budget
- Reduce and pay off the City's unfunded liability
- Diversify the City's risk and the employee's risk
- Competitively align with other local jurisdictions
- Leave the benefits accrued to date unaffected
- Promote incentives to save for healthy retirement
- Provide a long-term and sustainable solution for supporting employee retirement



# The administration proposes two options

## **OPTION 1:** Hard freeze DB plan and shift all employees into current 6% DC plan

- Requires a 6% employee contribution
- Requires a 6% employer contribution
- No Social Security or Defined Benefit
- Has been the pension plan for all City employees above grade 18 hired after 2001
- The Mayor and the Cabinet are in this plan
- No limit on benefit as percent of salary
- Reduces the City's annual contribution cost by \$27M-31M in the first 5 years
- Reduces the unfunded liability by \$2.5B in 2041 assuming closed amortization

## **OPTION 2:** Hard freeze DB plan and provide employees ability to opt-in to Social Security

### Employees Currently in DB Plan:

- If employees opt-in to Social Security, they can contribute up to 8% in a DC plan with 100% match from City
- If employees opt-out of Social Security, they can contribute up to 12% with 100% match from City. There is a mandatory 6% contribution

### Employees Currently in DC Plan:

- If employees opt-in to Social Security, they can contribute up to 8% in a DC plan with 50% match from City
- If employees opt-out of Social Security, they will remain in the mandatory 6% DC plan with 100% match from City

### Changes are NOT being proposed to:

- Earnings accrued
- Vesting period
- Retirement age
- Retiree pensions
- Salary calculation
- COLA



# Option 1: Benefits that have already been accrued will not change

## Example employee profile

- Current age 50
- 25 years of service (YOS)
- Final average salary = \$51,000
- 5 YOS remaining

No change  
to plan

Annual  
annuity

94% of total annuity

6% of total  
annuity

Total annuity  
= **\$40,800**

80% *salary*  
replacement



Shift to  
Option 1

Annual  
annuity

\$38,250

\$2,262  
\$485  
\$485

	Employee contribution		
	8%	11%	14%
Annuity	\$40.5K	\$41.0K	\$41.5K
Salary %	79%	80%	81%

## Legend



Benefit resulting from  
current DB plan



New plan with 8%  
employee contribution



Additional benefit from 11%  
employee contribution



Additional benefit from 14%  
employee contribution

Note: Shows 5% annual return; Assumes employee maintains a flat salary; Shows inflation adjusted DC benefit  
Total annuity: Current DB Formula (3.0% \* 25 years of service \* \$51K salary = **\$38,250**); because of a higher multiplier (3.0% vs. 2.5% for general), total annuity is capped at 80% for AFR (Total annuity = \$51K \* .8 = **\$40,800**)  
Source: Segal & Co.

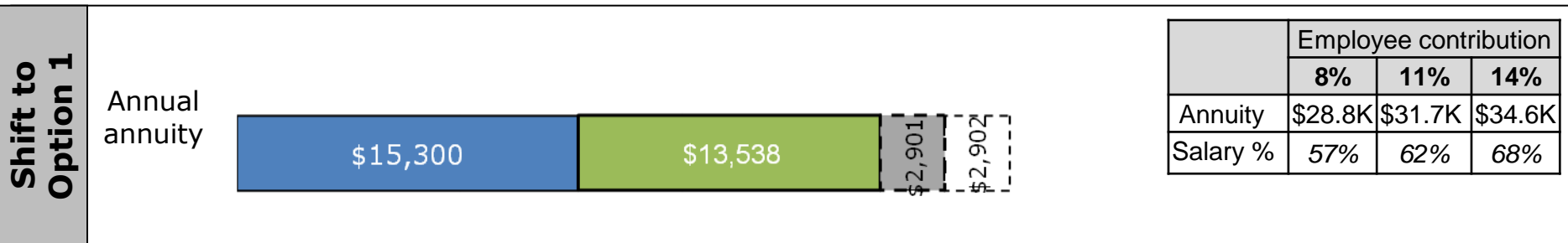
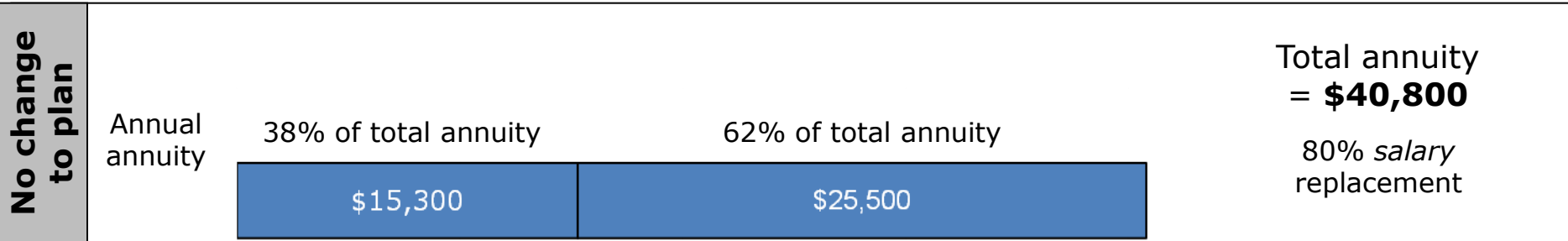




# Option 1: Benefits that have already been accrued will not change

## Example employee profile

- Current age 35
- 10 years of service (YOS)
- Final average salary = \$51,000
- 20 YOS remaining



## Legend

- Benefit resulting from current DB plan
- New plan with 8% employee contribution
- Additional benefit from 11% employee contribution
- Additional benefit from 14% employee contribution

Note: Shows 5% annual return; Assumes employee maintains a flat salary; Shows inflation adjusted DC benefit

Total annuity: assumes 3.0% multiplier

Source: Segal & Co.



# Option 2: Benefits that have already been accrued will not change (SS opt-out)

## Example employee profile

- Current age 50
- 25 years of service (YOS)
- Final average salary = \$51,000
- 5 YOS remaining

\*Assumes employee opts out of Social Security

No change  
to plan

Annual  
annuity

94% of total annuity

6% of total  
annuity

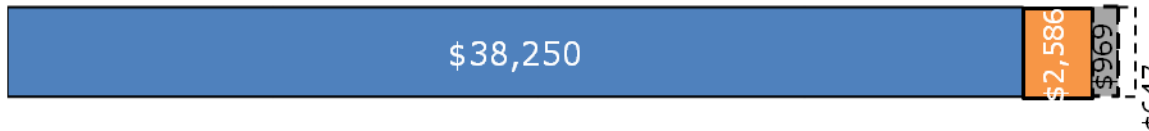
Total annuity  
= **\$40,800**

80% *salary*  
replacement



Shift to  
Option 2

Annual  
annuity



	Employee contribution		
	8%	11%	14%
Annuity	\$40.8K	\$41.8K	\$42.5K
Salary %	80%	82%	83%

## Legend



Benefit resulting from  
current DB plan



New plan with 8%  
employee contribution



Additional benefit from 11%  
employee contribution



Additional benefit from 14%  
employee contribution

Note: Shows 5% annual return; Assumes employee maintains a flat salary; Shows inflation adjusted DC benefit

Total annuity: assumes 3.0% multiplier

Source: Segal & Co.



# Option 2: Benefits that have already been accrued will not change (SS opt-in)

## Example employee profile

- Current age 40
- 15 years of service (YOS)
- Final average salary = \$51,000
- 15 YOS remaining

\*Assumes employee opts into Social Security

No change  
to plan

Annual  
annuity

56% of total annuity

44% of total annuity

\$22,950

\$17,850

Total annuity  
= **\$40,800**

80% *salary*  
replacement

Shift to  
Option 2

Annual  
annuity

\$22,950

SS benefit=\$8,760

\$11,032

\$3,786

\$3,787

Employee contribution

8% 11% 14%

Annuity \$34.0K \$37.8K \$41.6K

Salary % 67% 74% 81%

## Legend



Benefit resulting from  
current DB plan



New plan with 8%  
employee contribution



Additional benefit from 11%  
employee contribution



Additional benefit from 14%  
employee contribution

Note: Shows 5% annual return; Assumes employee maintains a flat salary; Shows inflation adjusted DC benefit

Total annuity: assumes 3.0% multiplier

Source: Segal & Co.



# Option 2: Benefits that have already been accrued will not change (SS opt-in)

## Example employee profile

- Current age 35
- 10 years of service (YOS)
- Final average salary = \$51,000
- 20 YOS remaining

\*Assumes employee opts into Social Security

No change  
to plan

Annual  
annuity

38% of total annuity

\$15,300

62% of total annuity

\$25,500

Total annuity  
= **\$40,800**

80% *salary*  
replacement

Shift to  
Option 2

Annual  
annuity

\$15,300

SS benefit=\$10,428

\$13,909

\$5,802

\$5,803

	Employee contribution		
	8%	11%	14%
Annuity	\$29.2K	\$35.0K	\$40.8K
Salary %	57%	69%	80%

## Legend



Benefit resulting from  
current DB plan



Additional benefit from 11%  
employee contribution



New plan with 8%  
employee contribution



Additional benefit from 14%  
employee contribution

Note: Shows 5% annual return; Assumes employee maintains a flat salary; Shows inflation adjusted DC benefit

Total annuity: assumes 3.0% multiplier

Source: Segal & Co.



# Additional employee profiles – Option 1

Age	Current service	Salary	Part 'A' annuity	Part 'B' DB/DC annuity				Total annuity			
				No change	8% EE contrib	11% EE contrib	14% EE contrib	No change	8% EE contrib	11% EE contrib	14% EE contrib
50	25	\$51,000	\$38,250	\$2,550	\$2,262	\$2,747	\$3,232	\$40,800	\$40,512	\$40,997	\$41,482
45	20	\$51,000	\$30,600	\$10,200	\$5,150	\$6,253	\$7,357	\$40,800	\$35,750	\$36,853	\$37,957
40	15	\$51,000	\$22,950	\$17,850	\$8,835	\$10,728	\$12,621	\$40,800	\$31,785	\$33,678	\$35,571
35	10	\$51,000	\$15,300	\$25,500	\$13,538	\$16,439	\$19,341	\$40,800	\$28,838	\$31,739	\$34,641
30	5	\$51,000	\$7,650	\$33,150	\$19,541	\$23,729	\$27,916	\$40,800	\$27,191	\$31,379	\$35,566
25	0	\$51,000	\$0	\$40,800	\$27,202	\$33,031	\$38,861	\$40,800	\$27,202	\$33,031	\$38,861

Note: Shows 5% annual return; Assumes employee maintains a flat salary (for purposes of modeling); Shows inflation adjusted DC benefit  
Source: Segal & Co.



# Additional employee profiles – Option 2 with SS opt-out

Age	Current service	Salary	Part 'A' annuity	Part 'B' DB/DC annuity				Total annuity			
				No change	8% EE contrib	11% EE contrib	14% EE contrib	No change	8% EE contrib	11% EE contrib	14% EE contrib
50	25	\$51,000	\$38,250	\$2,550	\$2,586	\$3,555	\$4,202	\$40,800	\$40,836	\$41,805	\$42,452
45	20	\$51,000	\$30,600	\$10,200	\$5,886	\$8,093	\$9,564	\$40,800	\$36,486	\$38,693	\$40,164
40	15	\$51,000	\$22,950	\$17,850	\$10,097	\$13,884	\$16,408	\$40,800	\$33,047	\$36,834	\$39,358
35	10	\$51,000	\$15,300	\$25,500	\$15,472	\$21,275	\$25,143	\$40,800	\$30,772	\$36,575	\$40,443
30	5	\$51,000	\$7,650	\$33,150	\$22,333	\$30,708	\$36,291	\$40,800	\$29,983	\$38,358	\$43,941
25	0	\$51,000	\$0	\$40,800	\$31,088	\$42,747	\$50,519	\$40,800	\$31,088	\$42,747	\$50,519

Note: Shows 5% annual return; Assumes employee maintains a flat salary (for purposes of modeling); Shows inflation adjusted DC benefit  
Source: Segal & Co.



# Additional employee profiles – Option 2 with SS opt-in

Age	Current service	Salary	Part 'A' annuity	Part 'B' DC/DB annuity				Part 'B' SS annuity	Total annuity			
				No change	8% EE contrib	11% EE contrib	14% EE contrib		No change	8% EE contrib	11% EE contrib	14% EE contrib
50	25	\$51,000	\$38,250	\$2,550	\$582	\$1,551	\$2,521	<b>\$3,972</b>	\$40,800	\$42,804	\$43,773	\$44,743
45	20	\$51,000	\$30,600	\$10,200	\$1,324	\$3,531	\$5,738	<b>\$7,068</b>	\$40,800	\$38,992	\$41,199	\$43,406
40	15	\$51,000	\$22,950	\$17,850	\$2,272	\$6,058	\$9,845	<b>\$8,760</b>	\$40,800	\$33,982	\$37,768	\$41,555
35	10	\$51,000	\$15,300	\$25,500	\$3,481	\$9,283	\$15,086	<b>\$10,428</b>	\$40,800	\$29,209	\$35,011	\$40,814
30	5	\$51,000	\$7,650	\$33,150	\$5,025	\$13,400	\$21,774	<b>\$12,096</b>	\$40,800	\$24,771	\$33,146	\$41,520
25	0	\$51,000	\$0	\$40,800	\$6,995	\$18,653	\$30,311	<b>\$13,776</b>	\$40,800	\$20,771	\$32,429	\$44,087

Note: Shows 5% annual return; Assumes employee maintains a flat salary (for purposes of modeling); Shows inflation adjusted DC benefit  
Source: Segal & Co.



Thank you

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